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## AN HISTORICAL STUDY OF LAW'S SYSTEM.

### I.

AT the death of Louis XIV., France was practically bankrupt. It is true, the floating debt and the capital represented by the *rentes* amounted to only about 3,000,000,000 livres; but, for the statesmen and financiers of that day, the resources of the kingdom were inadequate to meet the interest charges of this debt and at the same time pay the ordinary expenses of the government. The protracted wars during the reign of the late king had exhausted the vitality of the kingdom. Commerce was prostrate, manufactures were stagnant, agriculture had almost been abandoned. To escape service in the army or starvation at home, many laborers had fled to Italy. Deserted farms were frequently to be met with, and there were vast stretches of uncultivated land where the traveller encountered neither peasants nor domestic animals. The credit of the monarchy was almost entirely gone. In pursuance of a custom of many years' standing, the collection of a large part of the taxes had been farmed out for terms of years to individuals and to companies. To meet current expenses, the government had been obliged to negotiate with these farmers of the revenue for advances upon the taxes which they had the legal right to collect; and thus many of the important sources of revenue had been anticipated for several years.

Various forms of government notes and obligations were in circulation. Some of these had been issued in a regular manner, and some were practically certificates of indebtedness issued from the bankrupt offices of different branches of the revenue service. Double-entry book-keeping had not as yet been introduced by the government,

and no person knew the full extent of the government debt or the form in which it stood. Such patent opportunities for cheating had not been neglected; and the misery of the situation was aggravated by a large proportion of fraudulent paper, which circulated in the market among the various evidences of government indebtedness, and thus increased the government discredit. Notes issued by royal authority, which it was ordained by the Council of State should pass current between individuals, were, by the same authority, declared not to be available for payment of dues to the government. Little more confidence could be placed in the coin of the realm. The theory prevailed that the effigy of the reigning monarch and the denomination stamped upon the piece of metal which circulated as coin were what gave it value. The number of livres in the *marc* of gold or silver could be increased or diminished at the will of the ruling monarch. Theoretically, it was possible to call in all the coin of the State, and to reissue the same pieces of metal at a higher rate, the State thus receiving the benefit of the nominal increase in value.\* No measure which their ingenuity could devise had been left untried by the financiers of Louis XIV. to raise money out of the people of France. As a result there had been established an ingenious system of direct taxes, which reached the most obscure branches of industry and trade, which hindered pros-

\*These increases of denominational value were termed "*augmentations*": the reverse processes were known as "*diminutions*." The manner in which they operated can be no better disclosed than by setting before the reader the argument used by the Parliament, in a remonstrance made to the regent, against a recoinage with *augmentation*. In this case, the citizen who brought coin to the mint was permitted to add to his coin, for exchange into the new coinage, *billets d'état* to the extent of two-fifths of the amount of the coin. The result of this proceeding was stated to be substantially as follows: An individual carries to the mint 125 marcs of silver, which, at the rate of 40 livres to the marc, make 5,000 livres. He also brings 2,000 livres in *billets d'état*. He receives in new coin 7,000 livres, which, at the rate of 60 livres to the marc, weigh only 116 2-3 marcs. He loses 8 1-3 marcs on the 125 marcs which he brought, and all his notes.

perity, which even drove the laboring people over the border.

It is not to be wondered at, that with such a legacy of misery, the regent was forced to discuss the propriety of repudiating the State debts. This step, however, he declined to take openly, although many of the operations to which he actually resorted were of the same nature. The outstanding obligations of the government which were of the character of demand debts were called in. Some of them were cancelled. Others were arbitrarily reduced in amount. In place of the old evidences of debt, new notes called *billets d'état* for 250,000,000 livres, uniform in character and bearing four per cent. interest, were issued.\* The process of inspection and cancellation was known as the "*Visa*," and was carried on under the management of the Paris Brothers, who were afterwards prominent in their opposition to Law. All those who had dealt with the government or who were suspected of usury were compelled to disclose their affairs, and were subjected to arbitrary amercements of their property by the order of a "Chamber of Justice," composed of important government officials. Proceedings of this nature were not calculated to restore confidence on the part of capitalists. Yet the bare-faced corruption which had prevailed during the latter days of the preceding reign somewhat mollified popular judgment; and when the regent in various ways made feeble efforts to remove the trammels from trade, to encourage labor, to systematize taxation, and to relieve the State from the burden of payments largely absorbed in support of the privileged classes through pensions and offices, the fact that these steps were in the right direction was felt and appreciated.

\* There can be no doubt that the title "*billets d'état*" was first specifically applied to this issue of notes. Yet so competent an authority as the Baron de Nervo speaks of the government obligations called *billets d'état*, which were emitted under the preceding reign. *Les Finances Françaises sous l'Ancienne Monarchie*, par M. le Baron de Nervo, t. ii., p. 9.

While the authorities were thus groping in the dark, seeking for some ray of light which should reveal the pathway to prosperity, Law appeared upon the scene. He was born in Edinburgh, in 1671. His father was a goldsmith, which in those days meant that he was also a banker. While Law was still a mere boy, his father died, leaving his family in comfortable circumstances. Under the guidance of his mother, Law received an education suitable to his station in life and to the activity of an intellect which even in childhood gave signs of its capacity. Arrived at early manhood, he drifted to London, where he led a career of dissipation, which culminated in 1694 in a duel, in which he killed his opponent. He was thereupon tried for murder, convicted, and sentenced to death. Pending certain legal proceedings subsequent to the sentence, he escaped from prison, and fled to Amsterdam. While there, he is said to have devoted himself to a study of the Bank of Amsterdam, which was then at the height of its prosperity, and it is supposed that he learned the secrets of its mysterious management. In 1705, he submitted to the Scotch Parliament a plan for a land-bank. This scheme was published under the title "Money and Trade Considered." \* The land-bank did not meet with favor at the hands of the Scotch Parliament; and Law, shortly after submitting it, became a rover upon the continent of Europe. He is reported to have passed several years travelling from place to place, during which time he amassed a fortune by gambling and by fortunate speculations. His brain, meanwhile, was teeming with schemes of credit which should revolutionize trade and make the fortune of what-

\* John Briscoe, in 1696, unfolded a scheme for a land-bank in a publication entitled *A Discourse on the Late Fund of the Million Act, etc., together with Proposals for supplying their Majesties with Money, etc., by a National Land-bank*. Law himself referred to a project submitted by "Doctor H. C." (Hugh Chamberlayne). Other schemes of a similar nature, suggested by men of speculative temperaments, are referred to by students of the history of that time.

ever State should adopt them. These plans he freely discussed with men of power and position who would listen to him, thus establishing for himself a continental reputation as a financier who had new ideas concerning banks, and who was thoroughly competent to elucidate and defend them. While searching for some sovereign bold and needy enough to experiment with his theories, he proposed to Chamillart to establish a bank, and he forwarded to the Prince de Conti memorials, which, during the latter days of Louis XIV., were submitted to Desmarets.\* The record of an attempt in another quarter is preserved through the epigrammatic answer attributed to Victor Amadeus of Savoy, who relieved himself from the perils of the experiment by saying, "I am not rich enough to ruin myself." It is probable that, when Law came to Paris and approached the regent with his schemes, he was known in every capital in Europe as a brilliant financier, whose reasoning it was difficult to refute, but whose plans differed so materially from those then in vogue that he had not been able to find any ruler willing to adopt them. His success at the gaming-table and his career of dissipation were no bar to his influence.

Law submitted to the regent several memorials and letters in which he discussed the relations of money and credit to trade. In these papers, he referred to many of the banks then in existence; but it is evident that the banks from which he deduced most of his theories, and upon the example of which he relied for his plans for re-

\*Law's works were collected and published in 1790. The name of the editor of this work is not given on the title-page, but M. de Senovert has generally had the credit of it. Eugène Daire, in his *Économistes Financiers du XVIIIe Siècle*, republished this work, and also several fugitive pieces by Law, which were not included in Senovert's collection. In Law's "Second Memorial on Banks," p. 548 of Daire's collection, Law says, "It will be easy to prove that, if the bank had been established by M. Chamillart, when I had the honor to propose it to this minister, this establishment would have sustained the Crown and the State." Page 563, he refers in a similar way to the papers which reached Desmarets.

generating France, were the Bank of Amsterdam and the Bank of England. The former was a bank of deposit. The merchant deposited a sum of money, and in return therefor received on the books of the bank a credit. The money, once in the vaults of the bank, was supposed to remain there permanently. Its place in the currency of the world was supplied by the bank credit, which had a *quasi* circulation at Amsterdam. If the merchant wished to make use of his credit or of any portion of it, he gave an order to have a transfer made upon the books of the bank. Coins of all sorts and of every condition were received on deposit, but credits were adjusted in terms of a fixed standard adopted by the bank. Bills of exchange could thus be drawn in terms which avoided the embarrassments arising from *augmentations* and *diminutions*, and from clipped and sweated coin. Confidence in the bank was complete, and bank credits were more available in Amsterdam than coin. Special deposits were permitted in cases where the merchant expected soon to require the specific use of coin; but it is supposed that the general equilibrium between coin and bank credits was preserved through the medium of brokers, who daily dealt in bank credits on the Dam, and who, whenever there was a special demand for coin, always stood ready to purchase credits. Thus, a credit at the bank could always be converted into coin, and fluctuations were avoided. The Bank of England was based upon a different plan. Like that of the Bank of Venice, its foundation was government credit. It was organized for the purpose of lending its capital to the government, and thus it became a sort of fiscal agent. No power was given the corporation to issue bills, but it was assumed that it was conveyed in the general powers of the act under which the bank was organized. Deposits were received, accounts with depositors were opened, and the bank very soon exercised the various powers and performed the several functions which it has

continued to do to the present time. It became, in short, a bank of discount and circulation, which received deposits from merchants and the capital of which was in the form of a government loan.

The constitution and management of these and of other prominent European banks had convinced Law that, if confidence could be restored in France and the people could be induced to treat with a bank, as the merchants in Amsterdam did with their bank, the entire coin of the realm could be drawn into its vaults; a large amount of paper currency could be floated, and would be preferred to coin as a circulating medium; the bank, like the Bank of England, could act as agent of the government, and, if it should receive all the taxes, the credit thereby gained would enable it to float still more paper. The source of prosperity in any country he attributed to the abundance of money. Credit was the equivalent of money. By means of the increase of the circulating medium, interest on the debt could be reduced, and perhaps the principal could be redeemed. Trade and manufactures would be stimulated, and from the more prosperous country a much larger revenue could be collected than could possibly be squeezed out of the unfortunate people as they were then situated. Such a bank would be more powerful than the Bank of Amsterdam, because it could make use of a portion of its deposits, reserving only a portion to redeem its bills. As the depository of all the coin in the realm and the receiver of all the taxes, it would also surpass the Bank of England in strength.

The possibility of founding such a bank was based, first, upon the establishment of confidence; and, second, upon a series of propositions which Law elaborated, and which have been epitomized by Forbonnais\* substantially as follows:—

1. That all materials suitable for coinage may be converted into money.

\* *Recherches et Considérations sur les Finances de France.* Basle, 1758.



2. That the abundance of money is the condition on which depend labor, husbandry, and population.

3. That paper is more suitable than the metals for a circulating medium.

In developing this last proposition, Law dwelt upon the fact that, by *augmentations* and *diminutions* and by changes of standard of fineness, sovereigns had the power to make a metallic currency uncertain in value; and, further, that the value of gold and silver coin is affected by the market price of ingots. This price, he said, was governed by the quantity imported, and thus the value of the coin was in a measure dependent upon foreign powers. Paper having no intrinsic value was not affected by fluctuations of the market. The quantity could always be proportioned to the demand. Notes could be protected against fluctuations in value, arising from *augmentations* and *diminutions*, by expressing their denominations in coin of specified weight and standard. This would also act as a protection against runs upon the bank, as all temptation to convert the notes into coin in order to derive the benefit of an *augmentation* would thus be provided against. Such notes would also be used like bills of exchange for remittances, saving the cost and trouble of transporting coin, besides saving time in counting.

Law's first proposition for a bank was submitted at an extraordinary meeting of the council, held October 24, 1715,\* at which, in addition to the members of the council, several bankers, merchants, and representatives of cities in France were present.† The scheme then submitted was thus described in the report of the meeting:—

The idea of this bank is to cause all the revenues of the king to be brought to the bank; to give to the receivers and farmers of the taxes notes for ten crowns, one hundred crowns, and one thousand

\* *Recherches Historiques sur le Système de Law*, par E. Levasseur, Paris, 1854, p. 39.

† The matter had been previously discussed at several meetings held at the residences of those who were interested. "18th [Oct.]. Yesterday there was a

crowns, weight and standard of this day, which will be called bank-notes. These notes will be thereupon carried by the said receivers and farmers to the royal treasury, which will furnish them with receipts on account. All those to whom payments are due from the king will receive at the royal treasury only bank-notes, with which they can go at once to the bank to receive their value, no person being obliged to keep them or to receive them in trade. But the *Sieur Lass* [Law] pretends that their utility will be such that everybody will be glad to have them in preference to silver, on account of the ease with which payments in paper can be made, and on account of the assurance of receiving payment for them whenever it is desired.

The Duke of Noailles, who was then in charge of the finances of France, was opposed to the bank. He believed that, before a credit sufficient to maintain a bank could be established, it was necessary to create a desire for such an institution. His opposition killed the scheme, as it was then presented. The regent announced that he had been of opinion that the bank ought to be established, but that he agreed with what the Duke of Noailles had said. The proposed bank, which should be founded on the royal funds, and which should be administered in the name and under the authority of the king, was abandoned.

Law then submitted a plan for a bank which should be administered by himself, but which should be subject to the inspection of the government. The capital should be furnished by individuals, or, as he said, he himself would furnish it and would take all the risks. The proposition contemplated the use of deposits for the purpose of discounts, and objection was raised that the bank would not then be in condition to redeem its bills. He replied by pointing to the example of the Bank of Scotland, whose notes circulated freely after the bank demonstrated its solv-

numerous council held at M. Amelot's, to examine the project of the bank. It will meet again to-morrow at M. d'Argenson's. Several bankers and principal merchants of Paris will attend. M. Law has only requested the Duke of Orleans to exclude Bernard." *Memoirs of the Court of France from the Year 1684 to the Year 1720*, now first translated from the Diary of the Marquis de Dangeau, ii., p. 370.

ency, even though it was obliged to suspend specie payments for lack of coin. He evidently hoped that the bills of his bank would be made a legal tender between the government and individuals; for, he said, "to make the bank-bills serve in payments between the king and subjects gives them a much greater extent of credit, and renders them much less subject to extraordinary demands, than if the receipt of the bills in payments were voluntary." He also clung to the idea of making the bank the cashier of the king, and argued that this act would remove distrust of the king's relations towards the bank, and would make it clearly to his advantage to sustain it. It would make the bank stronger, and less subject than other banks to events which might endanger its credit. Bank-notes would, in consequence, become like letters of exchange, payable at sight, in every city in the realm. To the objection raised by the Duke of Noailles, that the confidence essential for the support of the bank could only be born of a desire for the bank, he answered that he could easily prove that the bank would restore confidence by causing money to circulate. In any event, it could not increase the present distrust, nor lock up coin closer than it was then held. All the edicts the king might issue would not restore confidence among foreigners. The bank alone could do it, by furnishing a means for drawing letters of exchange payable in *écus de banque*, which would not suffer any change, even if the denominational value of the coin in circulation should be altered.

On the 2d of May, 1716, letters patent\* were granted to Sieur Law and his company, to establish the Banque Générale. The exclusive privilege of the bank was granted for the term of twenty years. Notes were to be stipulated payable in specie, under the term *écus de banque*, by which was to be understood coin of the weight

\* *Recueil Général des Anciennes Loix Françaises*, Paris, 1830, t. xxi., No. 57, p. 100 et seq. Duhautechamp, *Histoire du Système des Finances sous la Minorité de Louis XV.*, à La Haye, 1739, t. v., p. 74, No. 4.

and standard of the date. The bank was exempt from taxation; and shares and deposits belonging to foreigners were not subject to *droits d'aubaine*, confiscation, nor letters of reprisal, in case of war. Depositors were to receive notes payable at sight in return for their coin. The penalty for altering or counterfeiting these notes was death. The Duke of Orleans was named as the protector of the bank.

On the 20th of May, an edict was promulgated, prescribing the details of the organization.\* The capital was to consist of 6,000,000 livres, in twelve hundred shares of 5,000 livres each. Open accounts could be kept in the bank, the cash balance being subject to withdrawal, or to *virements de parties*,† — a method of adjusting balances between depositors by transfers of accounts, similar in effect to that which is to-day effected by checks. Bills or letters of exchange could be discounted; but the bank could not engage in trade by sea or land, nor in maritime insurance, nor in commission business. All bank-notes were to be made payable at sight, and the bank was forbidden to borrow upon interest. The bank could issue notes, and the only limit prescribed was that there should be prepared at one time the amount which it was judged would be necessary. Forbonnais‡ asserts that the managers of the General Bank determined that the capital should be paid three-quarters in *billets d'état* and one-quarter in coin.§ Daire calls attention to the fact that

\* *Recueil Général*, t. xxi., No. 61, p. 106 *et seq.* Duhauchamp, t. v., p. 81, Letters Patent, containing Regulations, etc.

† “*Compte en Banque* is applied to a fund that merchants, bankers, or other individuals deposit in the common treasury of the bank.” Under “*Banque*,” the phrase “*Ecrire une partie en banque* is defined, To enregister in the books of the bank the mutual transfer of sums, or portions of sums, in bank, which are made by creditors to debtors. It is called ‘*Virement des Parties*.’” *Le Grand Vocabulaire François*, Paris, 1767, and following years.

‡ *Recherches et Considérations*, t. ii., p. 427.

§ Lacretelle erroneously says that the funds of the General Bank were composed one-half of *billets d'état*. *Histoire de France pendant le Dix-huitième Siècle*, Paris, 1830, t. i., p. 267.

Thiers omits all notice of this fact.\* Notwithstanding the reduction of the amount of the government debts effected by the *Visa* and the Chamber of Justice, the *billets d'état* were still at a heavy discount on the market. There were no definite quotations, for traffic in government securities was attended with danger from arbitrary proceedings like the *Visa*. Sales were effected, however, in an underhand way by agents whose head-quarters were in the Rue Quincampoix, and the rates obtainable were governed somewhat by the necessities of the seller. At that time, such securities are said to have been at a discount of from sixty to seventy per cent. If one-quarter of the capital was paid in cash and three-quarters in *billets d'état* at the lowest market rate, the effective capital of the bank would have been 2,850,000 livres. Ganilh,† taking *billets d'état* at forty, figures the effective capital at 3,300,000 livres.‡

The bank was authorized to exercise its functions as soon as the twelve hundred shares were subscribed. A meeting of the subscribers was then to be called, at which regulations were to be fixed for payment for the shares. The place designated in the royal declaration for the office of the bank, until a more suitable place could be

\* *Économistes Financiers du XVIIIe Siècle*, par Eugène Daire, Paris, 1851, p. 426, note 1. "The power to pay the price of the share, one-quarter in silver and three-quarters in *billets d'état*, is an important circumstance, of which M. Thiers does not speak. It proves that the interests of the bank from its origin were connected with those of the government." Page 428, note 1, Daire shows that Thiers confused the General Bank with the Company of the West, so far as paying for shares in this manner was concerned.

† *Essai Politique sur le Revenu Public*, par M. Ch. Ganilh, Paris, 1806, t. ii., p. 4.

‡ The statement that one-quarter was paid in cash has been taken by some writers to mean that one-quarter of the cash was paid in. Lémontey quotes, from a manuscript on John Law by Ledran, the statement that 375,000 livres were paid in coin and 1,125,000 livres were paid in *billets d'état*, which were at a discount of seventy per cent. *Histoire de la Régence*, par P.-E. Lémontey, Paris, 1832, p. 71, note. Courcelle-Seneuil, in Lalor's *Cyclopædia*, says that, of

found, was Law's house, Place Louis-le-Grand (Vendôme),\* then a new quarter of Paris.

Nothing in the letters patent of the bank indicated its close connection with the government, unless the fact that the Duke of Orleans was styled its protector be so regarded. On the surface, the policy of the Duke of Noailles prevailed; and Law was left to establish confidence in his bank-bills without the direct aid of the government. The bank was not at that date declared to be the royal cashier, nor were the bills ordered to be received between the government and the people. But, from the statement that the regent presided at a meeting of the shareholders, December 20, 1717, † at which a semi-annual dividend of seven and one-half per cent. was declared, we learn that the protectorate of the regent was more than a name. The mention, also, of the presence at this meeting of a majority of the great lords of France shows

the 1,500,000 payable in specie, less than 400,000 livres had been paid up. Jobez says, "The bank was opened with the sum of 375,000 livres; for on 1,200 shares of 5,000 livres, divided among the shareholders, and payable one-quarter in coin and three-quarters in *billets d'état*, the payment of only one-quarter of what was due had been exacted." *La France sous Louis XV.*, par Alphonse Jobez, Paris, 1864, t. i., p. 465. There is, however, nothing in the edicts issued at the time of the organization of the General Bank which relates to the manner in which the capital stock should be paid in. *Recueil Général*, t. xxi., pp. 100, 106, Nos. 57, 61. And see Duhautechamp, t. v., pp. 74, 81. In the declaration of the king, converting the General Bank into the Royal Bank, it is stated that the capital of the General Bank was originally paid in *billets d'état*, which were afterwards converted into shares in the Company of the West. *Recueil Général*, t. xxi., p. 167, No. 173. Duhautechamp, t. v., No. 14, p. 157. Forbonnais's statement concerning the method in which the capital should be paid in was apparently taken from the records of the bank, and Ganilh's statement of the effective capital of the bank was therefore approximately correct.

\* As a matter of fact, it is stated by Piganiol de la Force that "Law first established the offices of the *Banque Générale*, which ruined so many families," in the Hôtel de Mesmes, which is in the Rue Sainte-Avoye. *Description de Paris*, etc., par M. Piganiol de la Force, Paris, 1742, t. iv., p. 204. Levasseur, p. 129, note 2, says it was determined, in April, 1719, to remove the offices of the bank from the Hôtel de Mesmes, Rue Sainte-Avoye, to the Hôtel de Nevers, Rue de Richelieu, the building which is now occupied by the Bibliothèque Nationale.

† Léumontey, t. i., p. 72.

that Law had scattered his stock where it would do him good.\* It is evident that the Court was, from the first, directly interested in the success of the bank. According to Forbonnais, the success was a pronounced fact from the very beginning; and the beneficial influence of the bank upon trade and manufactures was immediately felt.

It is clear, however, that the General Bank, even after it had demonstrated its value, was far from satisfactory to Law. Although he had alleged that credits or notes, being more suitable than coin, would always be preferred, if the establishment and the management were well regulated, and although he had proved that the French would avail themselves of such credits, still he longed for the more extended area for operations and the greater protection against extraordinary demands, which, he said, would result from making use of the bills in payments between king and subject. He had argued that the power on the part of individuals to refuse the bills of the Bank of Scotland had made the circulation of the bills of that bank more uncertain than if they had been, as he termed it, legal. In the same memorial in which he offered to assume the risk of the experiment himself, he had insisted

\* If proof be needed upon this point, it is furnished by the infamous Abbé Dubois, who records the fact that he was bribed, and also indicates that Stair, the English ambassador, was working in Law's interest. "Law wished for only one foot in the stirrup; and, in fact, his beginnings were so reasonable that I was seduced at the very first. Stair, who was always at the Palais Royal, raised by degrees the enthusiasm of the regent for the formation of a bank, to be treasurer of the State, with Law as director. Nevertheless, the Duke of Orleans, all on fire at first, cooled off considerably, when it came to the question of issuing an edict. Then Law played adroit manœuvres, spending money and promises. My own credit with the prince was too well known for him not to engage it at any price. Stair sent for me particularly; and Law, whom he presented to me as a genius, fought me on his own ground, proving to me the advantages of the bank,—advantages which were very clear to me, since, in addition to a sum payable after the establishment of the system, they gave me thirty of the first 12,000 shares. I entered warmly into their plans, and did not leave the regent at rest until he had consented to everything." *Mémoires du Cardinal Dubois*, Paris, 1829, t. iii., p. 238.

that the idea of making the bank the cashier of the king would make it stronger, would extend its credit, and would make its bills, like letters of exchange, payable at sight in each city in the kingdom. He maintained that an absolute monarch could extend his credit more advantageously, and could obtain money at lower rates of interest, than a prince with limited authority. The error committed by France which had produced distrust had been, according to him, in making the notes which the State issued interest-bearing. They should have been payable at sight, without interest. They were investments, and not credits. His belief in the power of an absolute monarch to force the circulation of State notes is shown in one of his letters to the regent. He there states that force is contrary to the principles on which credit ought to be founded, and that all that was necessary to introduce his project into commerce was that his notes should be used in place of specie in dealings between the king and his subjects; but he prefaced these assertions with the remark that his Majesty ought not to hesitate in compelling people to use these notes, if it became necessary to do so.\* He was willing to use force in an emergency, notwithstanding the fact that it was opposed to the principles of credit.

In May, 1716, an edict was issued,† which recited that various orders had been made against the circulation

\*The opinions attributed to Law in the text are taken from the compilation of his works, published in Daire's *Économistes Financiers*. It would be impossible, in the limited space afforded me, to furnish references to all citations. To aid the student who may wish to follow the subject further, I point out a few of the references in this paragraph. That the credit of the bank would be extended by making it the royal treasurer, see page 550; that an absolute monarch has an advantage over one with limited authority, see p. 546; that credit, to be like money, ought not to bear interest, see p. 547; that force is contrary to the principles on which credit ought to be founded, and for the contradictory remark which prefaces it, see Letter VIII., p. 590. See also Daire's note to the same: "*On n'avait jamais vu se contredire à deux lignes de distance.*"

† *Recueil Général*, t. xxi., p. 114, No. 69.



of notes with the name of the payee left blank, that a custom prevailed of avoiding these laws by making such notes payable to bearer, and that blank indorsements worked the same effect. All these methods were forbidden to individuals, but State notes and notes of the bank might circulate in any of these forms. On the 25th of July, 1716,\* a declaration of the king was issued, the object of which was to facilitate the transmission of notes to the provinces, by removing all risk of loss during transportation. Indorsements of bank-notes were permitted to be made, the only effect of which would be to indicate the ownership of the notes, unless there was an express guarantee given by the indorser.

The decree of council, April 10, 1717, in which it was ordered that notes of the General Bank should be received for all taxes and revenues of his Majesty, and that officials having charge of the royal treasure should redeem at par bank-notes which should be presented to them for that purpose, has generally been considered as fixing the date of the intervention of government in behalf of the bank.† In the preamble of this decree, it is stated that the notes of the bank had already established their credit throughout the kingdom and in foreign lands; that remittances had consequently become much more easy; that discounts had been reduced and usury diminished; and that it was important that these notes should be received for value throughout the kingdom, so that re-

\* *Recueil Général*, t. xxi., p. 120, No. 86.

† In October, 1716, the Duke of Noailles apparently yielded to the pressure of Law, and on the 7th of that month addressed a letter to the intendants of the provinces, which is quoted by Levasseur, p. 49, in which receivers of taxes were ordered to make their remittances to Paris in bank-notes, and to redeem the notes whenever they had specie in their treasuries. This order proved to have been issued too soon. The bank was not prepared to furnish notes fast enough for so extended a use. Receivers took advantage of the order to withhold their remittances. It was therefore modified by a letter of the 26th of December, in which these officials were instructed to redeem bank-notes, when presented, but not to hold back their funds. The order of October anticipated by six months the date usually assigned for the intervention of the government.

mittances could be promptly made, thus avoiding loss of use of money through lying idle in the treasuries, and also avoiding as far as possible the transportation of coin from the provinces to Paris, which was always a disadvantage to trade.

Notwithstanding the evident advantage to the provinces of being furnished with a means of remittance to Paris which should avoid the expense and risk of transportation of coin, the bankers and officials who were interested in maintaining the old system were powerful enough to raise serious opposition to this order in the greater part of the provinces. The Duke of Noailles was obliged to exert his authority to the utmost, and even in some instances to punish recalcitrant receivers of taxes, before the order could be enforced in its full spirit; and the council was obliged to follow up this decree with supplementary decrees,\* issued September 12, 1717, February 26, 1718, and June 1, 1718, before the opposition was overcome.

In a letter to the regent, Law had said: "The bank is not the only nor the grandest of my ideas. I will produce a work which will surprise Europe by the changes which it will effect in favor of France,—changes more powerful than were produced by the discovery of the Indies or by the introduction of credit." In a note, Senovert † queries whether Law alluded in this to the Company of the Indies. Unless this be accepted as an allusion to that company, I find no hint in Law's preliminary arguments

\* *Recueil Général*, t. xxi., p. 106, note. Duhautechamp, t. v., pp. 117, 120.

† Quoted in Daire's *Économistes Financiers*, p. 581. On the same page, a few lines above, Law says: "Your royal highness will remember that, one day at Marly, you did me the honor to say that through the openings which I have made you began to see beyond the difficulties of the country. I then had the honor to say that the bank was not the most important of my ideas, but that I had a plan by which I would furnish five hundred millions which should cost the people nothing." It is to this clause the note in question is attached. In the edition of *Œuvres de J. Law*, Paris, 1790, generally attributed to Senovert, the note occurs on page 335, while the expression quoted in the text is on page 337. The force of the reiteration is much emphasized when thus encountered on separate pages.

that his original scheme contemplated the absorption of the great commercial monopolies of France. The time had come, however, for the development of his system. Crozat, to whom Louis XIV. had in 1712 granted the monopoly of the commerce of Louisiana, had petitioned the regent for the privilege of surrendering the concession; and this privilege was granted him by decree of council dated August 23, 1717.\* The statement has been made, but not generally accepted, that this act of Crozat was for the purpose of disarming the Chamber of Justice, and that the suggestion that the grant be put in the hands of Law was not dictated in a spirit of friendship, but in the hopes that it would lead to his destruction.† The grant surrendered by Crozat was promptly conferred upon the Company of the West for a period of twenty-five years, by an edict registered on the 6th of September ‡ of the same year. The company was given the monopoly of the commerce of the colony and the absolute control of colonial affairs, as well as the monopoly of the trade in beaver skins in Canada. All mines opened in Louisiana during the term of the concession were granted to the company. It had the power to sell and convey lands free from the rights of seigniorage. It could arm and equip vessels of war, and the property of colonists in Louisiana was exempt from taxation during the period of the grant. The territory over which the company exercised these sovereign powers comprehended the region from which the Mississippi, the Ohio, and the Missouri

\* This date is given in a preamble. Duhautechamp, t. v., p. 92. See also *Recueil d'Arrests et Autres Pièces pour l'Établissement de la Compagnie d'Occident*, Amsterdam, 1720, p. 12.

† Lémontey, *Histoire de la Régence*, t. i., p. 73. Martin, on this as on many other points, follows Lémontey: "Noailles, whom the influences of Law began to disquiet, hoped to draw him into a ruinous affair, and little suspected that he was offering him the ardently desired lever of his system." *History of France*, by Henri Martin, translated by Mary L. Booth, vol. xv., p. 36.

‡ Duhautechamp, t. v., p. 91. *Recueil d'Arrests*, p. 11 et seq.

draw their waters. The only condition attached to the grant was that the company should import, during the period of the concession, six thousand whites and at least three thousand blacks into Louisiana.

No limit was fixed for the capital stock in the original grant, except that his Majesty was to close the books when the Directors said enough had been subscribed. Shares were fixed at five hundred livres each, and were to be paid for in *billets d'état*. It was declared that the shares should be made payable to bearer, and that they could be acquired by all persons without regard to their rank. The same inducements were offered to foreigners to invest in them as in the case of the General Bank. His Majesty declared that he wished non-resident foreigners to enjoy the same privileges in this respect as subjects of France. The *billets d'état* which should be paid for the shares were to be converted into four per cent. *rentes*, and the *billets* themselves burned.\* Thus, the market would be relieved from nearly one-half the floating debt of the State; and shareholders would be entitled to the same income as if they had held the notes, while they could hope for possible profits from the development of the colony.†

\* Bailly says that Law undertook to pay at par in silver the shares of the Company of the West, created but a short time before, in *billets d'état*, adding thereto a dividend much greater than the profits warranted. Before the time fixed for the redemption, the Company of the Indies was founded. No one demanded the redemption of his shares of the West. On the contrary, in one month, they were carried from par to 130 per cent. *Histoire Financière de la France*, par M. A. Bailly, Paris, 1830, t. ii., p. 80. I do not know on what authority this statement can be based. Perhaps it refers to the redemption of the General Bank shares.

† Thiers erroneously states that shares were to be paid for one-fourth cash and three-fourths *billets d'état*. *Memoirs of the Mississippi Bubble*, etc., by Adolphe Thiers, translated by F. S. Fiske, p. 62. This statement is evidently a misapplication of the terms on which subscriptions were paid for the General Bank, to the Company of the West. Marmontel, whose account of the system contains several errors, and on whom Thiers may perhaps have relied, makes the same mistake. *Œuvres Posthumes de Marmontel, Historiographe de France: Régence du Duc d'Orléans*, Paris, 1805, t. i., p. 178.

On the 12th of September, 1717,\* seven directors were appointed by the regent, to whom power was given to regulate and administer the affairs of the company. Law's name led the list. In December, it was ordered by royal edict† that the capital stock of the Company of the West should be fixed at 100,000,000 livres. 4,000,000 livres of *rentes* were created, which were to be issued to the company as fast as the corresponding amounts of *billets d'état* were paid in. The four millions for the year 1717‡ were to constitute the working capital of the company; but the *rentes* for the future were to be paid to the shareholders in semi-annual payments, beginning July 1, 1718. The amount of the capital stock of the Company of the West was unprecedented in France. Yet, at the very beginning, Law made provision for a possible increase. It was decreed that shareholders who did not contribute to such increase should thereafter receive only the four per cent. arising from the *rentes*.§

\* *Recueil d'Arrests*, p. 21.

† *Recueil d'Arrests*, p. 25. Sismondi apparently confounds the bank and the company, and, drawing no distinction between this edict and the letters patent of August, which were registered September 6, says, "The capital of the bank had been fixed at 100,000,000 by the edict of its creation." *Histoire des Français*, par J. C. L. Simonde de Sismondi, Paris, 1842, t. xxvii., p. 398.

‡ Eight months of the year had elapsed; and, at first sight, it would seem that, even if the subscriptions were paid up promptly, there could be but a fraction of the year's *rentes* for working capital. It must be borne in mind, however, that the *billets d'état*, with which the stock was to be purchased, also bore four per cent. interest. An attempt was made to cover this point in the third article of the December edict. *Recueil d'Arrests*, p. 29.

§ Apparently, the shares had coupons attached, representing this interest; for it was provided that shareholders could dispose of the interest on their shares by separating from the note of the share the part in which mention was made of the interest, which would be paid by the cashier, when due. The interest notes, thus separated, became by this means notes payable to bearer, the same as shares. *Recueil d'Arrests*, § 14, pp. 34 and 35. The shares of the General Farms Company, which was organized Sept. 16, 1718, also had coupons attached. In the decree of Aug. 31, 1719, in which the method of reimbursing the shareholders of that company is prescribed, the "coupons" of the shares are spoken of. Duhauchamp, t. v., p. 235. The dividends for the years 1720, 1721, and 1722 were attached to the "qualified" shares dated January 1, 1720. Duhauchamp, t. vi., p. 66.

The struggle between the regent and the Parliament of Paris began very shortly after the formation of this company. The story of this struggle is not without interest. But the power of the regent was now so firmly fixed that the contest with the Parliament did not seriously incommode the progress of the system; and the details of the contest are not, therefore, of importance in connection with the history of the bank and of the company. The conservatism of the Duke of Noailles was not in harmony with the frame of mind of the regent; and, when D'Aguesseau was humiliated, Noailles retired from the council, and D'Argenson assumed control of the finances. The nomination of D'Argenson was especially obnoxious to the Parliament. He appears to have been an ambitious, energetic man, willing to aid in the execution of projects, whether he believed in them or not; and his readiness to adapt himself to circumstances has caused his position with regard to Law's schemes to be interpreted in different ways by different writers.\* The first act of importance affecting the finances which took place after D'Argenson assumed office was a recoinage with *augmentation*. This was ordered in May, 1718, but was not even sent to the Parliament for registration. On the 20th of June, that body by decree forbade the execution of the order, on the ground that it was prejudicial to the State, to commerce, and to the fortunes of individuals. On the same day,† a decree was issued by the Council of State, breaking the decree of the Parliament and ordering

\* Louis Blanc says he was the leader of the malcontents who were jealous of Law. *Histoire de la Révolution Française*, t. i., p. c. The Duke of Richelieu says: "Thus, D'Argenson, Law, and Dubois resolved not only to humiliate the Parliament which hindered the system, but they further wished, by the same Bed of Justice, to destroy the Duke and Duchess of Maine." *Mémoires du Maréchal Duc de Richelieu*, seconde édition, Paris, 1793, t. iii., p. 15. Clement, in his *Portraits Historiques*, says he "would not submit to be but a dummy for Law" (p. 252).

† Extracts from the Registers of the Council of State. Duhautchamp, t. v., p. 123, No. 9.

anew the enforcement of the edict concerning the recoinage. On the 12th of August,\* the Parliament again showed its hand, this time directing its attack against the bank, which was ordered to keep within its charter. Royal treasurers were forbidden to deposit their balances in the bank; and foreigners, whether naturalized or not, were directed not to meddle in its affairs.† This was followed by a *coup d'état* on the part of the regent. Troops were ordered out; and the Parliament was summoned to a bed of justice, at which letters patent were issued‡ ordering it to keep within limits, and practically annulling its powers of remonstrance. From this time forward, during the development of the system, the Parliament was passive.

While this contest was going on, shares in the company had not found favor with the public. The solicitude concerning subscriptions is shown by the various decrees on the subject issued from time to time during the summer. It was announced June 12, 1718,§ that a part only of the subscribers had paid up, and that the directors had, in May, stricken off the names of delinquents. It was decreed that all who wished to subscribe might do so by paying one-fifth in *billets d'état* and the remaining four-fifths by the 1st of November. A failure to pay up in full by that time would forfeit the first payment. Courts and judges were deprived of the power of hearing disputes arising under this decree, such causes of action being referred to his Majesty's special consideration. This decree was followed by another, issued on the 28th || of the same month, authorizing the company to issue certificates

\* Duhautechamp, t. v., p. 124, No. 10.

† Law's life was in danger during this struggle. It has even been said that the Parliament prepared to execute him. *Mémoires Complètes et Authentiques du Duc de Saint-Simon*, t. xvi., Paris, 1829, p. 434.

‡ Duhautechamp, t. v., p. 127.

§ *Recueil d'Arrests*, p. 36.

|| *Recueil Général*, t. xxi., p. 106, note. *Recueil d'Arrests*, p. 38.

to bearer for such as had paid one-fifth, such certificates to contain a clause showing that they were forfeitable if the other four-fifths were not paid according to the terms of the previous decrees.

On the 4th of December, 1718,\* the Banque Générale was, by a declaration of the king, converted into the Banque Royale,† to be administered after January 1, 1719, in the name and under authority of the king. In this declaration, the regent stated that the success of the General Bank had caused him to examine anew Law's original project; and, having been informed that it would be for the benefit of the great body of his subjects that the bank should be continued under the title of the Royal Bank, he had accomplished this by reimbursing the shareholders in coin for the *billets d'état* they had paid in,‡ which *billets d'état* had subsequently been converted into shares in the Company of the West. He had, in consequence, become the sole proprietor of the bank. The shares in the Company of the West were to remain in the treasury as a fund for the bank, and to serve as a guarantee for the public. Notes of the bank were to be issued in future only by authority of decrees of the council, and were to be payable in *écus de banque* or in *livres tournois*, according to the instructions contained in the decrees. A

\* *Recueil Général*, t. xxi., p. 167, No. 173.

† Ganiilh calls attention to the curious confusion as to what constitutes a basis for credit, which was exhibited when the bank was thus converted into a government institution: "This metamorphosis had no troublesome effects on the credit of the bank; and what seemed truly absurd was that the government, which could not borrow a million on an edict enregistered in Parliament, borrowed fifty millions through the issue of bank-notes three months after it took possession of the bank. And these new notes, although without pledge and without security, although exactly similar to all the depreciated State notes, preserved their value, and were received with the same confidence as those which had been issued while the bank was under Law's direction." *Essai Politique*, t. ii., p. 11.

‡ The fact that the regent redeemed the shares of the General Bank by paying for them in coin has been discredited by some writers, but the assertion is made positively in the declaration by the king.



choice between the two forms of notes was thus nominally afforded the public. The new phrase in the notes, *livres tournois*, meant merely the variable fraction of the louis called the livre, which was subject to constant changes in value. Accounts in bank were to be exempt from execution. January 5, 1719,\* Law was appointed director of the Royal Bank.

Nothing is said in the declaration of the outstanding circulation of the General Bank; nor, so far as I have been able to discover, is it disclosed in any government document. Authors have set the estimate as high as 60,000,000 livres and as low as 12,000,000 livres; and, curiously enough, the authority for these different amounts appears to have been derived from one source,—the decree of April 22, 1719.†

The system was now launched and floating on the tide of fortune. The Royal Bank would seem to have been the complete realization of Law's original scheme. It

\* Duhauchamp, t. v., p. 176.

† Sir James Steuart, in his *Inquiry into the Principles of Political Economy*, vol. ii., p. 244, says 59,000,000. The Baron Nervo says 60,000,000. John Philip Wood, in his *Memoirs of the Life of John Law*, says that Law endeavored to obtain permission to continue the General Bank at the same time that the Royal Bank should be set on foot; but the request was refused. He gives 59,000,000 as the amount of outstanding notes, and refers to the decree of council as his authority. Levasseur (p. 52, note 3) gives the decree of April 22, 1719, citing it from Forbonnais, as the authority for his statement that 51,000,000 had been issued before December, 1718. On page 196, the 51 is converted into 61; and, in his record of the issues of the Royal Bank (p. 197), the 51,000,000 authorized in this decree are entirely omitted. Daire, citing the same decree as his authority, says, "Whilst the General Bank, a private establishment, had, during its thirty-two months' existence, issued, at most, 12,000,000 of notes, it needed only five months for the Royal Bank to put forth the amount of 59,000,000." *Economistes Financiers*, p. 433. I think I can trace the manner in which these different results have been derived from the same document. The decree of April 22 is an important one, and abstracts of it are given by all the authorities. An investigator, working from an abstract, might easily be misled. The decree authorized the issue of 51,000,000 notes, which, it was said, would bring the issue up to 110,000,000. Law had argued that credit increased capital tenfold. His capital was 6,000,000. 59,000,000 were outstanding. This was almost exactly the sum which Law had propounded as the increase which his capital would receive from credit. Inter-

was, as the regent intimated, Law's first plan; although here again we are met with doubts, and with assertions that Law was opposed to this change.\* To the bank had been added the Company of the West, with whatever additional strength was to be gained therefrom; and Law could at last test the principles which he had announced. Money furnished the life-blood of a nation. Paper was even better than coin. The supply that could now be furnished need only be limited by the demand. In addition to the ordinary channels of business, he had at his command the development of Louisiana, from which to gain that activity of circulation which was his measure of prosperity.

Notwithstanding the evident favor shown by the regent to Law, there was as yet no movement in shares of the

preting Law's language literally, it was an easy inference that the outstanding circulation was that of Law's bank. Levasseur has evidently inverted the figures of the notes issued and notes outstanding. He worked, in this instance, from Forbomais, instead of from the decree which is given in Duhautechamp, t. v., No. 18. In the *motif* of the decree, the dates of the several issues which make up the 59,000,000 are given. They were January 5, February 11, and April 1. The decree of January 5—Duhautechamp, t. v., No. 16—authorized an issue of 30,000,000, of which 12,000,000 were in the form of 20,000 notes for 100 *écus de banque* each. These crown notes, according to the decree of April 22, were never issued; and the order to issue them was then revoked. Here we find the 12,000,000 which Daire says was Law's outstanding circulation. Paying no attention to the statement in the decree that they had never been issued, Daire adds them to the 59,000,000, and puts the outstanding circulation at 71,000,000. My own conclusion is that Daire was right in fixing upon the 12,000,000 as the circulation of the General Bank. I infer that this amount, issued payable in *écus de banque*, must have been for the purpose of redeeming the outstanding circulation which was of like character; but, when it was found that the public acquiesced in a redemption in the *livres tournois* notes, they were withheld, and subsequently cancelled.

\*“Law eluded a proof which he had solicited, and proposed simply to replace 900,000,000 capital of *rentes* by the creation of an equal amount of notes having the function of money, without interest and without redemption.” If the bank was to prevail, he wished it put under “protection of a particular government, composed of four superior tribunals,—Parliament, the Chamber of Accounts, the Court of Aides, and the Court of Moneys.” Lémontey, t. i., p. 298. Martin, who, as I have elsewhere stated, follows Lémontey closely, repeats this statement. The treasures of the French archives were at Lémontey's command. Since his day, it is probable that some of the documents from which he quoted have been scattered or destroyed.

Company of the West. If other explanation for this be needed than the lack of success of previous monopolies of this character, it may perhaps be found in the fact that the Paris Brothers, prominent Swiss bankers, living in Paris, had in September, 1718,\* through D'Argenson, secured the contract for the collection of the revenue known as the *Fermes Générales* for the sum of 48,500,000 livres per annum. Following in Law's footsteps, they had secured a decree from the Council of State organizing a company based upon the contract, with a capital equal to that of the Company of the West, the shares being 1,000 livres each. The shareholders were to participate in the profits or losses, and the books were thrown open for public subscription. Like the Company of the West, the shares were to be paid for in discredited government obligations. These would bear four per cent. interest. The possible profits from the contract not only seemed much better assured than those from the commerce of Louisiana, but there was no reservation of the first year's interest to develop the scheme. The shares of the anti-system, as it was called, are said by most writers to have been better received than those of the system.† Many of the subscribers to stock in the Company of the West were at this time delinquent. The circumstances were not such as to tempt Law to enforce the forfeiture of the first payment; and it was announced in a decree, September 22,‡ that the time for

\* Duhauchamp, t. v., No. 13, p. 147.

† In November, 1718, according to Fantin des Odoards, the two were quotable at the same rate. *Histoire de France*, par Antoine-Étienne-Nicolas des Odoards Fantin, Vicaire Général d'Embrun, Paris, 1789, vol. i., p. 205. This author, who is generally spoken of as Fantin des Odoards, was an industrious gleaner of facts; and he gives details concerning events and quotations of market rates, not to be found elsewhere. Notwithstanding the fact that his confusion of statement and evident lack of understanding of technical terms have given him a reputation for being unreliable, I feel that, within certain limits, he may be used as authority.

‡ *Recueil d'Arrests*, p. 68.

paying the four-fifths, due November 1 in *billets d'état*, of which 22,000,000 remained unpaid, had been extended to January 1, 1719. It was evident that public attention must be attracted by other means.

In the fall of 1718 began the series of announcements of privileges granted to this favored company, which, judiciously scattered over a series of months, gradually stimulated public interest in its affairs, until all of France was plunged in a delirium of excitement; and the highways leading to Paris were thronged with people from the provinces and from foreign countries, hastening to the capital in the hopes that they might still be in time to secure shares. On the 1st of August, 1718,\* the contract for collecting the revenue from tobacco was awarded to the company for six years, at the rate of 4,020,000 livres per annum, an increase of 2,020,000 livres over the previous compensation. On the 4th of September,† the period of the grant was extended to nine years. December 15,‡ the privilege and the supplies belonging to the Company of Senegal were purchased. December 27, 1718,§ branches of the bank were established at Lyons, Rochelle, Tours, Orleans, and Amiens.|| Each of these branches had two offices,—one for the redemption of notes in coin, and the other for the delivery of notes for coin. It was also ordered that, after a given time, token money should not be received in payments of above six livres, and that silver should not be used for payments which exceeded six hundred livres, in cities where the bank had an office. No protest was to avail against payments in notes in cities

\* *Recueil d'Arrests*, p. 60.

† *Ibid.*, p. 65.

‡ Duhautechamp, t. vi., p. 144, Art. V. of the decree of the month of July, 1720.

§ *Recueil Général*, t. xxi., p. 107, note. See also Forbonnais.

|| The author of *Vie Privée de Louis XV.*, à Londres, 1781 (said to be Mouffle d'Augerville), calls attention (t. i., p. 59) to the fact that, in the cities where there were parliaments, bank offices were not established. Lille, Marseilles, Nantes, Saint-Malo, and Bayonne were thus distinguished.

where the bank had an office, as the notes were always redeemed at sight. February 11, it was ordered that notes could be redeemed in gold as well as silver, redemptions and payments to be at current rates.\* January 5, February 11, April 1, and April 22,† decrees were promulgated authorizing the issue of notes. A portion of those issued January 5 were authorized to be stipulated in *écus de banque*. In the preamble to the decree of April 22, it was stated that the public preferred those payable in *livres tournois*. The notes payable in *écus de banque*, which had been authorized, but not printed, were not to be prepared; 59,000,000 payable in *livres tournois* had been issued; 51,000,000 more were authorized; 100,000,000 livres, it was thought, would be enough for purposes of trade; and 10,000,000 more were to replace indorsed notes. The phrase "weight and standard of this day" had disappeared from the notes with the change to *livres tournois*; but it was ordered in the decree of April 22 that bank-notes should not share in the *diminutions* to which silver was subject, and that they should always be paid in full. Some doubt exists as to the responsibility for the change in the tenor of the notes and the insertion in the decree of the clause concerning *diminutions*. Louis Blanc, an ardent admirer of Law, says that Law was responsible, and explains his apparent inconsistency by saying that he feared the regent, and was opposed to giving the notes of the Royal Bank any features which could make them preferable to coin. He adds that the regent restored the omission by inserting in the decree the clause making the

\* Jobez, *La France sous Louis XV.*, t. ii., p. 100, refers to the decree of February 11, saying, "It removed from coin a part of its value, by warning the public that the bank would take gold and silver only at market rates." An abstract of this decree is given, *Recueil Général*, t. xxi., p. 107, note. Forbonnais says the decree of February 11 ordained that the bank should receive and pay out specie—gold as well as silver—only at the value and following current rates at which it was received in trade.

† *Encyclopédie Méthodique*, title "Commerce," sub-title "Banking."

notes incapable of *diminution*. Dutot,\* a defender of Law, says that the clause in the decree which declared the notes fixed and invariable was opposed to the sentiments of Law. Forbonnais, who was free from prejudice, says that Law and his friends protested afterwards that this clause was inserted against his advice; but Forbonnais proceeds to argue that Law, then in the height of his power, must be held responsible for it, even though it be in direct opposition to the terms of the decree of February 11, already referred to. At any rate, Forbonnais thinks it cannot be charged to Law's enemies, to whom he had not disclosed the secrets of the system. Daire, an opponent of Law, looks upon it as an adroit method of forcing coin to the bank for conversion into notes, through the instrumentality of impending *diminutions*. Levasseur takes the same view of it, and concludes that Law was then too powerful to escape responsibility.†

As a further protection for bank-notes, government officials in cities where the bank had offices were ordered to receive and redeem the notes, and to keep their bal-

\* *Réflexions Politiques sur les Finances et le Commerce*, reprinted in Daire's *Économistes Financiers*. Pâris-Duverney opposed the doctrines of Dutot in a work entitled *Examen des Réflexions Politiques*, etc., à La Haye, 1740.

† The idea of applying the preposterous system of *augmentations* and *diminutions* to notes seems absurd and impracticable. Yet Dutot says, "It is in the power of a legislator to increase or diminish the quantity *as well as the denominational value* of notes." Bearing this doctrine in mind, the change of the notes from stipulations in *écus de banque*—weight and standard of this day—to *livres tournois* carried with it liability to *augmentations* and *diminutions*,—a danger to which, Law had previously argued, notes would not be subject. This change had been brought about adroitly, by pretending to offer the public a choice between the two forms of notes in the first issue, but actually putting forth only the *livres tournois* notes. The decree of February 11 is in harmony with this policy. The exemption of the notes from *diminutions* by the decree of April 22, is a direct reversal of it. Afterwards, Law availed himself of this exemption to draw coin to the bank, by notifications of impending *diminutions*. For that reason, it has been argued that he favored the exemption. No interpretation of these events is consistent with any financial theory. It seems probable that the quiet abandonment of notes payable in coin of "weight and standard of this day" was due to Law. He had availed himself of such notes to buoy the General Bank. He had argued

ances exclusively in this form, and were also forbidden to remit coin to Paris except for the benefit of the bank.

The power of the Scotch adventurer was now an accomplished fact. His skilful manipulation of the courtiers, his adroit management of the regent, and his wonderful mental resources had enabled him to adapt his schemes to the temporary requirements of the situation. He had conquered success out of a series of difficulties and obstructions which could only have been overcome by a man endowed with a sanguine temperament and gifted with extraordinary powers of persuasion. Having subdued the Court and secured a foothold in the commercial world, he next turned his attention to the task of interesting the people in his scheme.

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in advance that notes would be more stable than coin, in order to convince doubters. But, when popular confidence in bank-notes had once been established, he could afford to abandon that form of note. The decree of April 22 denotes the interposition of another hand. The fact that Law afterwards availed himself of a feature of the notes apparently inserted against his will merely shows his power to make use of circumstances.